Control of Personnel.

The role of the Kader (Personnel) Department had undergone a great change in recent years. In the past, it was all powerful, hiring and firing people without any reference to the departmental heads. In more recent years, its power and importance have been reduced, and for instance an assistant chief of division could no longer be appointed by the Kader Department, - instead, the initiative in appointments would be taken by the economic administrators of the firm or the Ministry Department concerned. Lately, the control of the personnel rested with three bodies: the firm (its economic administrators, assisted by the Kader Department), the Ministry of State Control, and the Party organization. These three bodies co-operated fairly closely. On the other hand, there was no formal or visible cooperation between them and the AVO. The latter would sit and wait. Clearly, the AVO can prevent an appointment if it wants to, but respondent does not know what the channel of intervention would be. He believes that a proposed appointment may pass the Deputy Minister level, and is only pronounced upon by the AVO before it is placed for approval before the Minister himself. In other words, appointments which require approval by a Deputy Minister only, will not be reviewed by the AVO. This would suggest that the channel, through which the AVO hears of, and passes, appointments is the Personnel Main Department, the Central Kader Department of the Ministry, which, together with the Control Department and, in the case of the Foreign Ministry and the Ministry of Foreign Trade, the Protocol Department, is always directly under the Minister himself and is not sub-ordinated, as are all other departments, to one of the Deputy Ministers. Even that is unlikely to take any formal shape, because direct official contact between a Ministry and the AVO are frowned upon. More probably it is done through the Party Headquarters (Akadamia Street). The AVO regularly steps in in connection with the conferment of Party membership (e.g., the application for full membership of a probationary member may be approved at the lowest level, and then is knocked back at the district level on grounds "into which it would not be fit for us to enquire, the comrades at the district are receiving their information from a very good source".) It also regularly steps in in case of foreign travel, (this is easy and automatic, through the Passport Department), - on the other hand, if a man is suspect and under AVO observation, (as respondent was for six years prior to his arrest in 1955), the AVO tells nobody, not even the Minister, and the man may be given one responsible job after another without the AVO lifting a finger about it.

<u>Protocol Department.</u>

The Protocol Department of the Foreign Ministry ~~shares~~ has the task of assembling files on the private lives and personalities of foreign diplomats and politicians, while the Protocol Department of the Foreign Trade Ministry does the same in regard to foreign business men, - this is <u>not</u> confined to those business men who come to do business in Hungary. Import buyers and export salesmen of the various State foreign trading firms, are charged with compiling reports on the people they meet abroad, for which they must obtain data on their business standing, their family circumstances, personal character, business connections and private friends, and political leanings. When foreign business visitors are taken to be entertained in Budapest, the host foreign trading enterprise must also give a detailed report to the Ministry's Protocol Department on their conversations. However, the commercial traveller going abroad, gets his instructions on the sort of material he must gather from the Protocol and the Interstate Department of his Ministry, and never directly from the AVO.

Selection of Kaders.

In 1950, after having spent a few months at Electro Impex, respondent was summoned to Akademia Street. He was then merely a candidate (probationary) member of the Party. The person receiving him engaged him in small talk for some time, and then casually asked whether he would like to be sent to China for a couple of years, - the job in question was not specified. He said he would. Nothing came of it, respondent regarded it as characteristic that the preliminary exploration of such an appointment was done by Party Headquarters and not by the Ministry. Another case he came across was that of Béla Székely. This man was a simple little Jew, before the war a clerk in a flour mill. He joined the Party in 1945, and before long got to the top, getting a desk in Akademia Street. However, being an intellectual, he was later demoted to chief of division in the Ministry of Internal Trade. As their Kader situation improved, they would not have an intelectual here either, so he was further demoted to professor at the College of Economics (Mester Street). He was a colleague of respondent's there. One day he was summoned to to Party Headquarters in Akademia Street and told that he will be sent as commercial attaché to Buenoms Aires. In this case again, it was not the Ministry, but the Party Headquarters which prepared this sensitive appointment. Liaison between Party Headquarters and the AVO must have been quite close, whereas between the AVO and the Ministries, contact was ad hoc and indirect, with the AVO having built-in eyes and ears, about whom the Ministry knew little or nothing.

Informer System.

When the file material at AVO Headquarters was being gone through by the historians' revolutionary committee, it turned out that in a small village near Magyarovar, there lived 40 or 50 informers. Even if we concede that the density of the informer network must have been greater in the Western frontier region than elsewhere in the country. the total number of informers in Hungary must have been enormous. On the basis of his conversations with fellow prisoners, respondent understands that the great majority of conspiracies have been discovered through the informer system. In a firm, the identity of the informers was not revealed to either the chief of the personnel department or the director. During the Revolution, there was only one case when a Kader file was found, stating that the person concerned was an informer. This information must have got on to his file by accident. In no other case was a Kader file found which would have revealed to the personnel chief, or to his successor, that he or the AVO can rely on this person for information on the others. Obviously, the AVO kept this information to itself, - this may have been just caution, or jealousy of the Kader Departments as the AVO may have wanted alone to take advantage of its own network.

In the Ministry of Foreign Trade, there is a special AVO section. Respondent got to know of this by accident. He was lecturing on the technique of foreign trade at the College of Economics and at the Foreign Languages School, and he had to include in his lecture the organizational setup of the Ministry. At the beginning of a new academic year, he had to brush up on this, so he went to a friend, an assistant chief of a Main Policy Department, and asked him to sketch an organizational chart. In doing so, the friend winked and said there was an AVO section too.

Hungarian Foreign Trade Bank, Ltd.

This is another name for the Foreign Currency Department of the National Bank. Over a side-entrance of the building, housing the above department, there was a sign reading 'Hungarian Foreign Trade Bank, Ltd.' Amusingly enough, this entrance was permanently closed and there was a small sign, indicating that the entrance is around the corner. Over that entrance, the sign read 'Foreign Currency Department, National Bank'. For the transaction of complicated export/import deals with Western firms, the Hungarian foreign trading enterprise concerned usually suggested, as third Party, the Hungarian Foreign Trade Bank, Ltd.. The name, having pleasantly capitalistic connotations, inspired confidence in the foreign firm, although this "Bank" was anything but a proper, independent joint stock company, - it was nothing but the State-owned National Bank itself. The transactions channelled through this cover organization ~~xxx~~ were those involving barter. It is not the case that trade with capitalist countries was conducted under its name, while trade with socialist countries was conducted under the name of the National Bank. Rather, it so happens that barter is resorted to only in trade with capitalist countries, and hence the line of division between barter and non-barter on the one hand and capitalist and socialist on the other roughly coincides.

It may seem that in a country where each and every sector is nationalized and all monies flow in and out of the same pocket, there is no reason for barter. (The basic incentive for barter arises out of an over-valued currency: exporting becomes unprofitable and instead of ~~xxxxx~~ selling for foreign currency, which he would have to surrender to the authorities at a ridiculous exchange rate, the exporter will sell against foreign goods which he can re-sell on the domestic market. But if the exporter is the State itself, the barter arrangement becomes pointless). There were, in Hungary, the following alternative reasons for engaging in barter.

1) There may not have been a trade agreement with a particular country. In trying to export to that country,

the Hungarian side had to chose between selling for cash (but the country concerned would, in this case, be reluctant to issue an import licence, as the purchase of Hungarian goods would then be tantamount to hard currency expenditure), - or one could export to a country with which Hungary had a Trade Agreement, and this country would in turn re-export the goods to the country concerned within their Trade Agreement, - or one could resort to barter.

2) The goods in question may not be specified in the Trade Agreement.

3) The quota for the good, specified in the Trade Agreement, may be exhausted.

4) The Trade Agreement itself may provide for quasi-barter. For instance, Western Germany, in negotiating a Trade Agreement with Hungary, may stipulate the export of Hungarian lard in exchange for German steel or some other essential and scarce good. In such a case, a special account would be set up for these goods, the balance of which cannot be offset in the general clearing, but only against the balance of the account opened for the other scarce goods.

Rubel-Forint Exchange Rate.

Question: Why did all Hungarian economic administrators I have spoken to so far, spontaneously and unanimously mention the Rubel-Forint exchange rate as the central source of Soviet ecomonic exploitation?

Answer: I find the persistence of this belief puzzling myself. It ought not to matter what rate of exchange one sets in trade, what matters is the prices. However, if the Soviet Union has a credit balance in the clearing of 10 million rubels, at the ruling rate of exchange, it has 2.91 times 10 million = 29,100.000 forints, which it can spend in Hungary for occupation army or embassy expenses, and not, say, 10 or 15 million forints as it would have on a purchasing power parity basis.

Respondent has no information on the prices of Soviet and other imports, as he never worked on the import side. On the export side, if a Hungarian article was offered to Albania at 100, then to Bulgaria, Rumania and Poland it would be offered at 90-95, to Czechoslovakia and East Germany at 85-90 (with EasternGermany getting the better offer), to China and the Soviet Union at 80-85, - and for "Free Dollar" markets, at 80-85. In his practice, it did not occur, that an article was offered to the Soviet Union at a lower price than to the World Market. In other words, the prices charged to the Soviet Union were reasonably realistic. On the other hand, it may well be that the import prices paid to it were too high. (Interviewer's remark: contrast with interview, Code No.465, where respondent, whose experience is confined to the import side, suggests that the low price of Russian iron ore was compensated by the low price of Hungarian exports sent to the Soviet Union.)

Respondent believes Soviet exploitation took the form mainly of the establishment, by the Hungarian Government, of secret forint accounts on which the Soviet Union could freely draw. In his experience, there was one case supporting this presumption. When he was working at Chemolimpex, he had to do with the export of photographic films to the Soviet Union. Much to his surprise, he was instructed to make out the invoices in terms of forints. This was contrary to general practice, as transactions with the

Soviet Union were invoiced in rubels. Invoicing in forints must have meant that this export was not charged to the general clearing. In Chemolimpex, nobody, not even the inter-State department, knew what this might mean, but the firm got the money from the National Bank, and that was that. The payment for the merchandise exported to Russia must have been made by ourselves to ourselves.

"Price Equalization".

Theoretically, "price equalization" is analogous to a system of export subsidies and import levies. However, it has a much larger scope in Hungary. The authorities justify it by saying that we have to maintain a fixed and stable price structure, and have to use price equalization in foreign trade to insulate ourselves against the price fluctuations of the capitalist market. In effect, only a fraction of the subsidy or levy can be attributed to this purpose. Most of it results from the unrealistic exchange rate fixed between the socialist and the capitalist currencies. It has a third role, too, which is connected with the technological backwardness of socialist industry, where productivity is falling behind that in the West all the time and therefore the subsidy is increasing relative to the levy. On further questioning, it transpired that the levy only existed in theory, it did not seem to have much practical application. The reason was that in the case of the import of investment goods, the forint price charged to the firm receiving the imported machine etc. was calculated at the low nominal rate of exchange (11.74 forints per dollar). In the case of consumer goods imports, the retail price, of course, reflected the higher Hungarian price level,(corresponding to a purchasing power parity of, say, 40 forints per dollar at the time preceding respondent's imprisonment), but the differential was caught, not in the form of an import levy, but in the form of the State Wholesale and Retail Trades' profit or of turnover tax. As to intermediate goods, (raw materials), respondent has no information. (In any case, this is purely a transfer problem between one State secretary and another).

There was one case in respondent's practice, when an export levy could be made - This was on the ~~only~~ sale of electronic measuring apparatus to either Czechoslovakia or Poland. There were a couple of cases where no subsidy was needed, - these cases also involved electronic products. In all other cases he has ever come across, a subsidy of varying magnitude was necessary. He was more or less familiar with the work of four State export firms, Electro-Impex, Chemolimpex, Hungarotex and Technoimpex.) Technoimpex was one of ~~the~~ a group of three sister enterprises: it dealt in standard model machines, while of its sister enterprises Nikex exported machines individually specified in the order, and Complex accepted orders for the equipment of whole factories abroad.) At these firms, the subsidy varied around an average of 100% on the forint proceeds of the export calculated at the official rate of 11.74. Cases of up to 300% did occur, but 100% was ~~general~~ his general experience. However, this may not reflect the general industrial, let alone the agricultural, export average. In Hungarotex, (textile exports), the average tended to be higher than 100%.

In the winter of 1954/55, there was an officially inspired public debate on the profitability of foreign trade. Until then, the judgment of what to export and what to import, was utterly arbitrary and lacking any rational criteria. The debate was sparked off by the discovery of the fact that the import content of certain Hungarian exports was actually greater than the dollar prices received. In other words, the imported raw material was manufactured, labour and machinery depreciation expended, for less than nothing. The following schematic calculation illustrates how much in the dark, and how much divorced from true profitability considerations, export and import decisions were being taken.

("Frt" refers to expenditure in forints in Hungary; "deviza frt"(*); refers to foreign currency income or expenditure converted to forints at the 1$ = 11.74 frt. official rate.)

EXPORT

Frt Calculation

DEBIT

Producer's Price	100 Frt
Packing, freight etc.	10
Fobbing cost to Rotterdam	5
	115 Frt

CREDIT

Export Price	60 Frt
"Price Equalisation" (Subsidiary 90%)	55
	115 Frt

Dev.Frt. Calculation

DEBIT

Producer's Price	60	60
	40*	40*
Packing, freight etc.	10	10
Fobbing cost to Rotterdam	5*	5*
	115 =	70+45*

CREDIT

Export Price	60*		60*
Price Equalisation	55	55	—
	115=	55 +	60*

Nett dev.frt.receipt 60* - 45* = 15* dev.frt.

Labour Cost 70 frt.

From the forint calculation, all that can be seen is that the necessary subsidy is a mere 90%, a thoroughly satisfactory figure which would seem to suggest that on the particular export in question, Hungary is earning 1$ for about each 20 forints of expenditure. This, of course, seems to be a profitable export transaction. The next step, however, reveals that the subsidy percentage is a completely false guide in the matter of profitablity. In the forint calculation, the import content of the exported good is concealed. In the "deviza frt." calculation, it is seen that it takes a domestic expenditure of 70 forints worth of "labour" to earn 15 deviza frts., i.e. 4.6 forints to earn each 1 deviza frt. Multiplying by 11.74, it transpires that instead of a 1 - 20 $ forint exchange rate (apparently implied in the 90% subsidy ratio), the exchange rate on this transaction really works out at nearer 1 - 50. By taking account of the import content of the exported goods, we can see that the two statements:-

1. "the true dollar/forint exchange rate would be 1 : 40", and
2. "the average export subsidy level is 100%"

are not mutually contradictory.

Price determination.

The problem of choosing the prices at or above which one is prepared to export and below which it does not pay to do so, is, of course, the central question of Socialist foreign trade. Ostensibly, the guiding principle on which State foreign trading enterprises are supposed to act is "to act just as the capitalist trader would", but it would be just as true to say that the guiding principle was:

"if the export in question is included in the plan, go ahead with it, if not, do not sell it, - in both cases, regardless of price."

Suppose it is November, the time of drawing up next year's export plan. The foreign trading firm is asked to submit a proposal on its "goods turnover plan". This is the major plan,- others are the financial plan, the deviza inflow plan, the price equalisation plan and the shipping plan. The goods turnover plan, (quarterly and annual) specifies the volume of goods, their forint value, their deviza forint value, and the estimated subsidy percentage. The deviza inflow plan relates to the timing of receipts, as well as to the kind of currencies in question, while the shipping plan is self-explanatory. In submitting its draft plans, the firm looks at last year's results, adds or deducts according to the economic situation, and forwards its proposals. If it is lucky, it gets back its own proposals in the form of an approved plan. If it is unlucky, it gets back an increased one. In working ~~in~~ through the plan, it is the global fulfillment which matters, i.e. exports to one country can fall short of the target if exports to another exceed it. This plan already specifies the permissible subsidy percentages. Then the referents in the export firms simply take the home prices, deduct the subsidy and start making offers abroad at the resulting deviza forint price converted to foreign currencies. In case of goods exported in the previous plan period, the previous subsidy percentage is used as a precedent and is "planned-in", - in the case of goods exported for the first time, the subsidy percentage already approved on a comparable good is "planned-in" and the offer is made at the resulting price (this is an arbitrary and sloppy method, which takes no account of market conditions abroad.) If there is no precedent to follow (a completely new good), or if prices abroad are falling relative to the prices in the previous plan period, or in the case of a new (non-planned) destination or currency area, the matter has to be submitted to the price policy department of the Ministry of Foreign Trade. For example, if the case implies that at the planned 80% subsidy it proves impossible to sell, and 110% would be needed to complete the sale, the Ministry must decide the issue. Before submitting the case, the export referent of the trading firm must have it passed by the Head of the Department and the Head of the Main Department. They, as well as the Ministry, agree or refuse to pass it on a hit- and miss-basis, there is no visible system in their madness. At best, the head of the Main Department of the trading firm, before passing the application to the Ministry, asks for a calculation of the ratio of import content to export proceeds. For example, if the import content is 45, the export proceeds 60, this yields a "currency intensity" of 75%. He would look at the 75% and at the 90% subsidy percentage, scratch his head and either say 'yes' or 'no'. Respondent could never discover where the margin lay, what the figures were above which the application would always be rejected and below which it would always be approved.

After the discovery that certain exports had cost more to produce in terms of Foreign currency than the proceeds from their sale, the Ministry of Foreign Trade offered prizes for scientific studies dealing with the problem of profitability of foreign trade. During the ensuing debate in the Winter of 1954/55, there was a vain search for a single number which one could use as the index of whether it is worthwhile to contimue a certain export. Bedevilling these attempts to calculate profitability were the different rates of tax (turnover tax) on the different inputs, going into the exported good. Nor was it an easy matter to determine the import content of the exported good. For ins ance, what is the import content of wheat? How does one tell how much imports it takes to increase wheat production by an additional bushel? Moreover, although a given export may appear to be less unprofitable if sold to country A. than to country B., bilateral trade implies that this cannot yet decide the issue. For the prices of Hungary's imports from country B. may be lower than from country A., hence B.'s currency may be more valuable than A.'s. But an enterprise charged with exporting only has no means of detecting this. The The whole problem of export and import price determination is probably an insoluble one in a planned economy, although respondent believes that he came very near a solution whilst thinking about these matters in prison.

Be this as it may, the firm would have to follow the price equalisation guidance included in the plan it received from its superior authority. The guidance was set out under two headings, the average (e.g. 100%, - the firm was supposed to work in such a way that the subsidy on the global annual turnover should work out at 100%), and the ceiling (the permissible maximum subsidy on any individual transaction). Only the departmental heads were supposed to know what the ceilings were, the idea being that if the referents knew it too, they would be tempted to go right up to it so as to have a more comfortable life in negotiating export deals. However, so long as the permissible ceilings were not exceeded, no reprisals were taken if the prescribed average for the year was over-shot. However, since the bonus distributed to the employees of the trading firm varied with the deviza forint volume of turnover, it paid the firm to exceed the specified average subsidy percentage and offer a cheaper foreign currency price, thereby increasing the value of its turnover. (Interviewer's remark: provided the elasticity of demand for Hungarian exports was greater than minus one.) In other words, this provided an incentive to sell Hungarian exports at somewhat less than world market prices.

Embargo.

During the Christmas vacation of 1952, respondent, then a teacher at the College of Economics, sat in at Metalimpex to study the methods of evading the Western strategic embargo. The main methods employed were:-

1. buying from countries which did not subscribe to the embargo agreement, - e.g. purchase of scrap copper from Syria. The scope for this was too small.

2. buying embargoed goods and have them delivered under false declarations, e.g. lead declared as scrap steel. For this, the foreign exporter would be paid 50% or so above world market prices. This involved too many risks of seizure etc. and was not resorted to on a very substantial scale.

3. buying strategic goods from a State which did through a firm in a State which did not subscribe to the embargo agreement. A typical case would be the purchase of Chilean copper through the agency of a Swiss firm. The documentary credit opened by the National Bank in favour of the Swiss firm was

divisible and transferable, and the Chileans did not know that the Swiss firm was reselling it to Hungary at a higher price. Respondent could not recollect the names of these intermediaries. The Swiss or Dutch intermediaries would often get cold feet, taking many months to deliver or failing to deliver altogether. This means that large sums of foreign currency were lying idle in coverage of documentary credits opened at foreign Banks. To economise with foreign currency, the National Bank resorted, through the Banco di Trieste, to a "Promise of Documentary Credit", - against the deposit of a fraction of the eventual documentary credit by the National Bank, the Banco di Trieste gave a guarantee to the Swiss intermediary firm that the documentary credit will be opened within a given number of days after presentation of this or that document. All these transactions being very patchy, there were many difficulties with the conditions of the documentary credits, until eventually the so-called "Herzog Formula" was developed after many months of frantic study by the foreign currency department of the National Bank.

This was a relatively fool-proof form of documentary credit, specifying, for instance, that if the shipping documents or any other papers disclose that the final destination of the goods is Hungary, the credit is not payable.

An embargoed transaction used, as a rule, to go through as many as three intermediary hands, and the price would be at least 50% above the world market. In the case of Chilean copper, it was 100% above the world market.

C.I.F. or F.O.B., or how to get foreign Loans?

The guiding principle as to whether to sell on a c.i.f. or f.o.b. basis was the following. Suppose Hungary was selling to Argentina via Rotterdam. The f.o.b. price would be 1000 deviza forints payable in Argentine clearing dollars. On a c.i.f. basis, one could got 1100 in the same currency. Now the insurance and freight would be 90 deviza forints payable in Dutch guilders. This did not necessarily mean that the offer would be made on a c.i.f.basis.

From time to time, the Foreign Currency Department of the National Bank issued confidential circulars to the heads of foreign trading firms, instructing them to re-value, for their own purposes, certain foreign currencies relative to the official rate, - e.g., to act as if there were a premium of 10 or 15% on free dollars, West German clearing dollars and Swedish crowns, compared to the clearing dollars earned in other trade relations. Now it was likely to be the case that there was a premium on Dutch guilders compared to Argentine clearing dollars, so that a saving of 90 deviza forints in terms of Dutch guilders was preferable to the earning of an extra 100 deviza forints in terms of Argentine clearing dollars. An instruction of the same department of the National Bank, dealing with the basis of offering where rail freight abroad was concerned, illustrates the miserable foreign currency situation of Hungary and the desparate efforts to overcome it. The instruction was to offer f.o.r. the most distant rail point. (E.g., Rotterdam, and not the Austrian border). The reason was that the European Railways settled their accounts annually. The proceeds of an export f.o.r. Rotterdam were received at once, while the freight content of the price was not payable by the Hungarian export firm until the end of the year. The same was the case with imports; Hungary ~~beat~~ bought c.i.f. Triest or Rotterdam, and not f.o.r. Austrian border, and she did not have to pay for the rail freight from Port to Hungarian frontier until the end of the year. In effect, this was a means, and what a pitiful one, of getting foreign loans. The European Railways were lending foreign currency to Hungary through the ~~back~~ lag in railway freight settlements .

Sales Contacts.

When there was an established market abroad for a Hungarian export, the State foreign trading monopolies did not have a difficult task, and it was fair enough. On the other hand, in the case of once-for-all business, (e.g. a Turbine Tender in Montevideo, a Tender for rolling stock for Nigeria), the matter became more tricky, as foreign newspapers were not supposed to be read in the foreign trading firms below head of main department level, though they were available in the inter-state department of the firm. For such cases, the firms would have to rely on advice from the Hungarian commercial sub-offices (Kirendeltség), Ministry of Foreign Trade employees under the commercial attaché, - such sub-offices have been established in over thirty foreign capitals. They were supposed to be acting as eyes and ears of Hungarian foreign trade, and pass on to Budapest news of tenders, contracts or other prospects. However, the Hungarian firms disliked tendering, and often temporized or dropped the matter altogether under various pretexts, because conditions were usually difficult and stiff and their fulfillment interfered with the comfortable life of the officials. Besides, the plan of the industrial firm which would have to fulfill the tender may not have left room for the work in question, and to get approval for a "plan modification" involved much time, while foreign competitors could go right ahead.